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Message Text

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22
ACTION OPIC-06

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DEPT PASS OPIC FOR SEDLAR

E.O. 11652: N/A
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SUBJ: OPIC FY 1976 ANNUAL RPPOETN

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1. MATERIAL FOR ISRAEL PIECE IN ANNUAL REPORTS FOLLOWS:
ORIGINAL DRAFT WAS PREPARED BY MINISTRY OF FINANCE WITH MINOR
EDITING BY EMBASSY. PHOTO OF MINISTER OF FINANCE YEHOSHUA
RABINOWITZ WAS POUCHED FEB 17 TO SEDLAR.

2. A. GENERAL STATEMENT-RAPID GROWTH OF GNP AND INVESTMENT
HAS CHARACTERIZED THE ISRAELI ECONOMY SINCE THE ESTABLISHMENT
OF THE STATE. THE GOVERNMENT HAS CONSISTENTLY PURSUED A POLICY

OF ACTIVELY ATTRACTING FOREIGN INVESTMENT IN GENERAL AND IN
INDUSTRY IN PARTICULAR. FOREIGN INVESTMENT, IN ADDITION TO ITS
CONTRIBUTION TO THE BALANCE OF PAYMENTS, ALSO HAS A POSITIVE
IMPACT ON ISRAEL'S ECONOMIC DEVELOPMENT BY INTRODUCING NEW
TECHNOLOGY, MODERN METHODS OF MANAGEMENT, NEW INDUSTRIAL
BRANCHESJQ AND MARKETS. THE CUMULATIVE AMOUNT OF FOREIGN
INVESTMENT IN THE TWENTY-EIGHT YEARS OF ISRAEL'S EXISTENCE IS
APPROACHING THE $2 BILLION MARK, AND IS FELT IN ALL AREAS OF
ISRAEL'S ECONOMIC LIFE. WE ARE PLEASED THAT U.S. INVESTMENT
IN ISRAEL HAS PLAYED A MAJOR ROLE IN ISRAEL'S ECONOMIC DEVELOPMENT
AND HAS CONTRIBUTED SIGNIFICANTLY TO THE REMARKABLE GROWTH OF
ITS INDUSTRY QUANTITATIVELY AND QUALITATIVELY ALIKE.

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IT IS OUR BELIEF THAT ISRAEL OFFERS A MOST FAVORABLE

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INVESTMENT CLIMATE TO FOREIGN INVESTORS BY OFFERING AN
ATTRACTIVE PACKAGE OF INCENTIVES, BY THE STABILITY OF ITS
POLITICAL SYSTEM AND THE RELATIVELY FAVORABLE RELATIONS
BETWEEN THE WORKERS, THEIR UNIONS, AND THE INDUSTRIAL
ENTERPRISES. ISRAEL'SSERMNOMIC PLANNING FOR THE NEXT FIVE
YEARS CALLLS FOR AN AVERAGE YEARLY GROWTH IN ITS GNP OF 7
PERCENT AND MAJOR INVESTMENT IN ITS ECONOMY. WE HOPE THAT U.S.
INVESTMENTS WILLCONTINUE IN AN EVER INCREASING FLOW.

ONE OF THE ACHIEVEMENTS OF THE ISRAEL/U.S. JOINT ECONOMIC
COMMITTEE, WHICH IS CHAIRED BY THE U.S . SECRETARY OF THE
TREASURY AND THE MINISTER OF FINANCEOF ISRAEL, HAS BEEN
THE ESTABLISHMENT OF A BUSINESS COUNCIL WHOSE PURPOSE IS TO
FURTHER INVESTMENT AND TRADE BETWEEN THE U.S. AND ISRAEL.
THE COUNCIL IS EXPECTED TO PLAY A MAJOR ROLE IN INFORMING
U.S. BUSINESSMEN OF THE POSSIBILITIES OF INVESTMENT IN ISRAEL.

B. THE ECONOMY-THE REAL GROWTH OF ISRAEL'S GROSS NATIONAL PRODUCT
HAS AVERAGED ABOUT 9 PERCENT ANNUALLY OVER THE TWENTY-EIGHT
YEARS OF THE COUNTRY'S EXISTENCE. ECONOMIC PROGRESS WAS
FUELED BY THE FIVE-FOLD EXPANSION OF THE COUNTRY'S POPULATION

AND LABOR FORCE, TOGETHER WITH AN EVEN MORE RAPID INCREASE OF
ITS TOTAL INVESTMENT. THE FORMER WAS MADE POSSIBLE BY MASS
IMMIGRATION, THE LATTER BY LARGE-SCALE CAPITAL IMPORTS.
ISRAEL'S POPULATION IN 1975 WAS ABOUT 3.5 MILLION AND THE PER
CAPITA GNP WAS $2,800 AT EFFECTIVE RATE OF EXCHANGE.

THE BALANCE OF PAYMENTS HAS BEEN IN THE PAST AND IS AT PRESENT
ONE OF ISRAEL'S MAJOR ECONOMIC PROBLEMS. THEREFORE EFFORTS
HAVE BEEN MADE BY THE GOVERNMENT TO ENCOURAGE PRIVATE
INVESTMENT, ESPECIALLY IN EXPORT ORIENTED INDUSTRIES, AS
AN IMPORTANT MEANS OF CLOSING THE GAP BETWEEN ISRAEL'S IMPORTS
AND EXPORTS. IN 1975 INDUSTRIAL OUTPUT AMOUNTED TO $7 BILLION
AND INDUSTRIAL EXPORTS $1.5 BILLION. THE TARGET FOR THE NEXT
TEN YEARS IS TO DOUBLE INDUSTRIAL OUTPUT AND TO QUADRUPLE
INDUSTRIAL EXPORTS.

ISRAEL IS LIMITED IN NATURAL RESOURCES AND HAS A MODEST
SCALE OF MARKETS AT HOME. CONSEQUENTLY, SPECIAL EMPHASIS IS PUT
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ON THE DEVELOPMENT OF TECHNOLOGICALLY ADVANCED AND SCIENCE-
BASED INDUSTRIES, WITH THE VIEW OF EXPORTING THE MAJOR PART
OF THIS SECTOR'S PRODUCTION. IN THIS REGARD, SPECIAL EFFORTS
WILL BE MADE TO ENCOURAGE U.S. INDUSTRIAL COMPANIES AND
CORPORATIONS TO INVEST IN ISRAEL. BASED ON PAST EXPERIENCE,
AMERICAN INDUSTRIAL ENTERPRISES CAN BE OF GREAT ASSISTANCE N
HELPING ISRAEL ACHIEVE ITS INDUSTRIAL AND EXPORT OBJECTIVES.

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THE ISRAEL/EC AGREEMENT SIGNED IN MAY, 1975 PROVIDES FOR THE ESTABLISHMENT OF AN INDUSTRIAL FREE-TRADE AREA BETWEEN ISRAEL AND THE EC. THUS FROM JULY 1977 MOST ISRAELI-MADE INDUSTRIAL PRODUCTS WILL BE ADMITTED DUTY FREE INTO THE COUNTRIES OF THE EUROPEAN COMMON MARKET. ITS GEOGRAPHICAL LOCATION ALSO OFFERS ACCESS TO OTHER COUNTRIES SUCH AS SOUTH AFRICA, IRAN AND TURKEY.

INVESTMENT POTENTIAL

ISRAEL'S ECONOMIC PLAN FOR THE YEARS 1976-80, CALLS FOR INVESTMENT IN INDUSTRY IN THE AMOUNT OF $2.7 BILLION, ABOUT 75 PERCENT OF WHICH WILL BE INVESTED IN THE METAL, ELECTRONICS, AND CHEMICAL INDUSTRIES. IN ORDER TO ASSURE CONSTANT ADVANCEMENT AND TO KEEP UP WITH THE TECHNOLOGICAL KNOW-HOW OF THE INDUSTRIAL WORLD, THE GOVERNMENT OF ISRAEL PROVIDES GRANTS OF UP TO 50 PERCENT OF THE INDUSTRIAL R&D EXPENSES. ISRAEL, WITH ITS WORLD RENOWNED SCIENTIFIC INSTITUTIONS AND HIGHLY QUALIFIED ACADEMIC PERSONNEL AND SKILLED MANPOWER, PROVIDES AN ATTRACTIVE BASE FOR TECHNOLOGICALLY ADVANCED COMPANIES, ESPECIALLY THOSE WITH R$D PROGRAMS.

INVESTMENT INCENTIVES

THE LAW FOR ENCOURAGEMENT OF CAPITAL INVESTMENT IN ISRAEL WAS AMONG THE FIRST LAWS ENACTED BY THE KNESSET--ISRAEL'S PARLIAMENT--AND HAS BEEN FOR MANY YEARS THE MAIN VEHICLE FOR THE ENCOURAGEMENT OF INVESTMENT. THE LAW, WITH RECENT AMENDMENTS EFFECTIVE APRIL 1,1976, PROVIDES FOR OUTRIGHT GRANTS RANGING FROM FIVE PERCENT TO 30 PERCENT OF THE INVESTMENT IN FIXED ASSETS ACCORDING TO THE GEOGRAPHICAL LOCATION OF THE ENTERPRISE. IN ADDITION, MEDIUM TO LONG-TERM DEVELOPMENT LOANS ARE OFFERED AT A RELATIVELY LOW-INTEREST RATE, COVERING UP TO 45 PERCENT OF THE INVESTMENT IN FIXED ASSETS. CONSEQUENTLY,
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INDUSTRIAL ENTERPRISES THAT ARE ECONOMICALLY FEASIBLE ARE ELIGIBLE FOR FINANCIAL ASSISTANCE IN THE FORM OF GRANTS AND LOANS RANGING FROM 45 PERCENT TO 70 PERCENT OF THE INVESTMENT IN FIXED ASSETS.

THE LAW ALSO PROVIDES FOR INCOME TAX CONCESSIONS. THE TAX RATE OF AN APPROVED ENTERPRISE IS 40 PERCENT CORPORATE TAX. IN CASE THE PROFITS ARE REINVESTED NO ADDITIONAL TAX IS IMPOSED. ON PROFITS THAT ARE PAID OUT AS DIVIDENDS TO THE SHAREHOLDERS, THERE IS A 15 PERCENT INCOME TAX IMPOSED, BRING THE TOTAL TAX ON THE PROFITS OF THE APPROVED ENTERPRISE TO 49 PERCENT (40 PERCENT CORPORATE TAX AND 15 PERCENT ON THE BALANCE OF 60 PERCENT WHICH MAKES 49 PERCENT).

IN ADDITION, THE ENTERPRISE IS ALLOWED TO DEPRECIATE THE INVESTMENT IN INDUSTRIAL EQUIPMENT WITHIN TWO YEARS, THERE

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IS FULL EXEMPTION OF INDIRECT TAXES, SUCH AS CUSTOMS DUTIES, PURCHASE TAX, ETC., ON THE INDUSTRIAL EQUIPMENT ACQUIRED BY THE APPROVED ENTERPRISE.

FOREIGN INVESTORS ARE GRANTED THE RIGHT OF REPATRIATION OF THE PROFITS AND THE PRINCIPAL IN THE CURRENCY IN WHICH THE INVESTMENT WAS MADE. THERE ARE NO RESTRICTIONS WHATSOEVER ON OWNERSHIP AND MANAGEMENT. THE FOREIGN ENTREPRENEUR MAY, IF HE SO WISHES, FULLY OWN HIS ISRAELI ENTERPRISE AND UTILIZE HIS OWN EMPLOYEES IN ITS MANAGEMENT.

INCENTIVES FOR EXPORT INDUSTRIES

THE LAW PROVIDES FOR AN ADDITIONAL GRANT OF UP TO 24 PERCENT OF THE INVESTMENT IN FIXED ASSETS FOR EXPORT INDUSTRIES PAYABLE UPON EXECUTION OF EXPORTS, DURING FOUR OUT OF SIX YEARS FROM THE TIME THE ENTERPRISE COMMENCED FULL OPERATION. WORKING CAPITAL IS AVAILABLE TO EXPORT COMPANIES AT LOW RATES OF INTEREST. THE GOVERNMENT RPOVIDES ASSISTANCE IN THE FORM OF MARKETING FACILITIES ABROAD AS WELL AS PARTICIPATION IN FAIRS AND EXHIBITIONS. IN SUM, THE INVESTMENT INCENTIVES DESCRIBED ABOVE, THE AVAILABILITY AND COMPARATIVELY LOW COST OF HIGHLY SKILLED WORKERS, THE DECLARED POLICY OF THE GOVERNMENT TO ENCOURAGE AND FACILITATE FOREIGN INVESTMENT, PROVIDE FAVORABLE CONDITIONS FOR AMERICAN AND OTHER FOREIGN INVESTORS TO DO BUSINESS IN ISRAEL.
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